

**MARION COUNTY SPECIAL EDUCATION COOPERATIVE**  
**FINANCIAL STATEMENTS**  
**AND**  
**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2011



**MARION COUNTY SPECIAL EDUCATION COOPERATIVE**

**FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Marion County Special Education Cooperative  
Marion, Kansas

We have audited the accompanying financial statements of the individual funds of Marion County Special Education Cooperative as of and for the year ended June 30, 2011, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Kansas Municipal Audit Guide*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note I-B, the Cooperative prepared these financial statements using accounting practices prescribed or permitted by the State of Kansas, Division of Accounts and Reports, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Marion County Special Education Cooperative as of June 30, 2011, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the individual funds of Marion County Special Education Cooperative as of June 30, 2011, and its cash receipts and expenditures, for the year then ended on the basis of accounting described in Note I-B.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2012, on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Cooperative, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory basis financial statements taken as a whole.

Emporia, Kansas

January 26, 2012

*Agler & Gaeddert, Chartered*



**Marion County Special Education Cooperative**

**SUMMARY OF CASH RECEIPTS, EXPENDITURES  
AND UNENCUMBERED CASH  
For the Year Ended June 30, 2011**

	<b>Unencumbered Cash Balance <u>July 1, 2010</u></b>	<b>Prior Year Cancelled <u>Encumbrances</u></b>
<b>Governmental type funds</b>		
<b>General funds</b>		
General	\$ 39,366	\$ 0
<b>Special revenue funds</b>		
Title VI-B Early Childhood Pass Through	1,177	0
Title VI-B Pass Through	(66,310)	0
Infant Toddler Grant, Part C	0	0
Targeted Improvement Plan	(5,666)	0
Special Education - ARRA	<u>0</u>	<u>0</u>
	<b>\$ <u>(31,433)</u></b>	<b>\$ <u>0</u></b>

The accompanying notes are an integral part of this statement.

**Statement 1**

<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Unencumbered Cash Balance June 30, 2011</u>	<u>Outstanding Encumbrances and Accounts Payable</u>	<u>Cash Balance June 30, 2011</u>
\$ 4,002,219	\$ 3,197,749	\$ 843,836	\$ 13,876	\$ 857,712
20,817	16,995	4,999	0	4,999
549,919	483,609	0	0	0
37,762	38,534	(772)	1,185	413
31,903	26,237	0	0	0
<u>169,625</u>	<u>169,625</u>	<u>0</u>	<u>0</u>	<u>0</u>
\$ <u>4,812,245</u>	\$ <u>3,932,749</u>	\$ <u>848,063</u>	\$ <u>15,061</u>	\$ <u>863,124</u>

**Composition of ending cash****Balances on deposit****Money Market Checking**

Cottonwood Valley Bank

\$ 862,624

**Petty Cash Checking**

Cottonwood Valley Bank

500\$ 863,124

Marion County Special Education Cooperative

Statement 2

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET  
(Budgeted Funds Only)  
For the Year Ended June 30, 2011

	<u>Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental type funds			
General funds			
General	\$ 4,124,061	\$ 3,197,749	\$ 926,312

The accompanying notes are an integral part of this statement.

**Marion County Special Education Cooperative**

**Statement 3**

**GENERAL FUND**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**

For the Year Ended June 30, 2011

(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

		<b>2011</b>		<b>Variance Favorable (Unfavorable)</b>
	<b>2010 Actual</b>	<b>Actual</b>	<b>Budget</b>	
<b>Cash receipts</b>				
<b>Local sources</b>				
District assessments	\$ 1,072,841	\$ 1,057,114	\$ 1,072,841	\$ (15,727)
Refunds on district assessments	0	(63,202)	0	(63,202)
Other				
Interest	757	423	500	(77)
Miscellaneous	38,916	78,111	49,538	28,573
<b>State sources</b>				
Special education aid	2,062,662	2,784,124	1,975,523	808,601
<b>Federal sources</b>				
ARRA	0	0	670,229	(670,229)
Medicaid	179,982	145,649	141,350	4,299
Other aid	0	0	54,407	(54,407)
<b>Total cash receipts</b>	<b>3,355,158</b>	<b>4,002,219</b>	<b>\$ 3,964,388</b>	<b>\$ 37,831</b>
<b>Expenditures</b>				
<b>Instruction</b>				
Salaries				
Certified	897,361	983,780	\$ 1,701,399	\$ 717,619
Non-certified	872,979	924,069	975,000	50,931
Employee benefits				
Insurance	189,773	208,008	210,000	1,992
Social security	230,825	229,096	245,000	15,904
Other	33,819	30,615	30,500	(115)
Purchased professional and technical services	14,069	23,293	16,500	(6,793)
Other purchased services	54,633	55,578	87,450	31,872
Supplies	7,578	20,436	28,050	7,614
Property	14,719	8,664	18,075	9,411
Other	118	1,374	4,000	2,626
<b>Student support services</b>				
Salaries				
Certified	365,081	347,934	351,000	3,066
Purchased professional and technical services	11,157	9,942	14,500	4,558
Supplies	2,673	4,049	7,400	3,351
Property	0	70	1,000	930
<b>Instructional support staff</b>				
Salaries				
Certified	18,167	17,833	22,000	4,167
Purchased professional and technical services	0	0	10,600	10,600
Other purchased services	0	175	15,137	14,962
Supplies	7,324	4,977	0	(4,977)

The accompanying notes are an integral part of this statement.

**Marion County Special Education Cooperative**

**Statement 3**

**GENERAL FUND**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**

For the Year Ended June 30, 2011

(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

		<b>2011</b>		
	<b>2010</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
<b>Expenditures - continued</b>	<b>Actual</b>			<b>Favorable</b>
<b>General administration</b>				<b>(Unfavorable)</b>
Salaries				
Certified	\$ 87,133	\$ 87,000	\$ 84,500	\$ (2,500)
Non-certified	95,418	90,347	90,000	(347)
Purchased professional and technical services	12,245	13,672	24,500	10,828
Other purchased services	24,054	23,228	29,800	6,572
Supplies	37,279	38,802	36,750	(2,052)
Property	0	641	1,500	859
Other	505	1,062	2,500	1,438
<b>Operations and maintenance</b>				
Salaries				
Non-certified	30,801	28,490	28,750	260
Employee benefits				
Other	1,408	0	1,500	1,500
Purchased property services				
Cleaning	1,054	3,840	2,000	(1,840)
Repairs and maintenance	50,990	10,839	50,000	39,161
Supplies	2,991	2,199	3,000	801
<b>Student transportation services - supervision</b>				
Salaries				
Non-certified	21,173	24,886	25,000	114
Employee benefits				
Other	0	0	750	750
<b>Vehicle service and maintenance</b>				
Purchased property services	2,471	571	1,200	629
<b>Other student transportation services</b>				
Other purchased services	905	1,150	1,700	550
Supplies	579	779	1,250	471
<b>Other supplemental services</b>				
Purchased professional and technical services	26	0	0	0
Other purchased services	765	150	1,750	1,600
Other	610	200	0	(200)
<b>Total expenditures</b>	<b>3,090,683</b>	<b>3,197,749</b>	<b>\$ 4,124,061</b>	<b>\$ 926,312</b>
Receipts over (under) expenditures	264,475	804,470		
Unencumbered cash, July 1	(226,046)	39,366		
Prior year cancelled encumbrances	937	0		
Unencumbered cash, June 30	\$ 39,366	\$ 843,836		

The accompanying notes are an integral part of this statement.

Marion County Special Education Cooperative

Statement 3

SPECIAL REVENUE FUNDS  
TITLE VI-B EARLY CHILDHOOD PASS THROUGH

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL  
For the Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

	2010 Actual	2011 Actual
Cash receipts		
Federal sources		
Grants	\$ 13,176	\$ 20,817
Expenditures		
Instruction		
Salaries		
Certified	16,998	16,995
Receipts over (under) expenditures	(3,822)	3,822
Unencumbered cash, July 1	4,999	1,177
Unencumbered cash, June 30	\$ 1,177	\$ 4,999

The accompanying notes are an integral part of this statement.

Marion County Special Education Cooperative

Statement 3

SPECIAL REVENUE FUNDS  
TITLE VI-B PASS THROUGH

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL  
For the Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

	<u>2010 Actual</u>	<u>2011 Actual</u>
<b>Cash receipts</b>		
<b>Federal sources</b>		
Grants	\$ 421,125	\$ 549,919
<b>Expenditures</b>		
<b>Instruction</b>		
Salaries		
Certified	487,435	483,609
Receipts over (under) expenditures	(66,310)	66,310
Unencumbered cash, July 1	0	(66,310)
Unencumbered cash, June 30	<u>\$ (66,310)</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this statement.

Marion County Special Education Cooperative

Statement 3

SPECIAL REVENUE FUNDS  
INFANT TODDLER GRANT, PART C

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL  
For the Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

	<u>2010 Actual</u>	<u>2011 Actual</u>
Cash receipts		
State sources		
Grants	\$ 20,905	\$ 37,762
Expenditures		
Instruction		
Salaries		
Certified	<u>20,905</u>	<u>38,534</u>
Receipts over (under) expenditures	0	(772)
Unencumbered cash, July 1	<u>0</u>	<u>0</u>
Unencumbered cash, June 30	<u>\$ 0</u>	<u>\$ (772)</u>

The accompanying notes are an integral part of this statement.

**Marion County Special Education Cooperative**

**Statement 3**

**SPECIAL REVENUE FUNDS  
TARGETED IMPROVEMENT PLAN**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL  
For the Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)**

	<u>2010 Actual</u>	<u>2011 Actual</u>
<b>Cash receipts</b>		
<b>Federal sources</b>		
Grants	\$ 19,721	\$ 31,903
<b>Expenditures</b>		
<b>Instruction</b>		
Salaries		
Certified	9,680	6,969
<b>Instructional support staff</b>		
Purchased professional and technical services	9,585	12,936
Other purchased services	6,122	6,332
<b>Total expenditures</b>	<u>25,387</u>	<u>26,237</u>
Receipts over (under) expenditures	(5,666)	5,666
Unencumbered cash (deficit), July 1	<u>0</u>	<u>(5,666)</u>
Unencumbered cash, June 30	\$ <u><u>(5,666)</u></u>	\$ <u><u>0</u></u>

The accompanying notes are an integral part of this statement.

Marion County Special Education Cooperative

Statement 3

SPECIAL REVENUE FUNDS  
SPECIAL EDUCATION ARRA

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL  
For the Year Ended June 30, 2011

	<u>2010 Actual</u>	<u>2011 Actual</u>
<b>Cash receipts</b>		
<b>Federal sources</b>		
Part B Grant	\$ 279,000	\$ 163,468
Pre-school grant	12,479	6,157
<b>Total receipts</b>	<u>291,479</u>	<u>169,625</u>
 <b>Expenditures</b>		
<b>Instruction</b>		
Part B	279,000	163,468
Pre-school	12,479	6,157
<b>Total expenditures</b>	<u>291,479</u>	<u>169,625</u>
 Receipts over (under) expenditures	0	0
 Unencumbered cash (deficit), July 1	<u>0</u>	<u>0</u>
 Unencumbered cash, June 30	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this statement.

## Marion County Special Education Cooperative

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

#### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### A. Reporting Entity

The Cooperative is a municipal corporation governed by a five member board, representing each participating district of the interlocal.

These financial statements include all the accounts for which the Cooperative is considered to be financially accountable. The Cooperative has no component units.

##### B. Basis of Accounting

*Statutory Basis of Accounting.* The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and expenditure would be charged in the fund from which the transfer is made.

The Cooperative has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

*Departure from Accounting Principles Generally Accepted in the United States of America.* The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expense, liabilities such as deferred revenue, matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for land, buildings and equipment owned by the District are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes and compensated absences are not presented in the financial statements.

##### C. Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the Cooperative.

**General Fund** - to account for all unrestricted resources except those required to be accounted for in other funds.

**Special Revenue Funds** - to account for the proceeds of special revenue sources (other than major capital projects) that are restricted by law or administrative action to expenditures for specific purposes.

Marion County Special Education Cooperative

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**D. Assets and Liabilities**

**1. Cash and Investments**

Cash balances from all funds are combined and invested to the extent available in certificates of deposit. Earnings from these investments are allocated to designated funds. All investments are stated at cost.

**2. Compensated Absences**

The Cooperative's policy is to recognize the costs of compensated absences when actually paid. Sick leave is earned at the rate of 12 days per year up to a total accumulation of 75 days for certified employees. Employees are allowed four days of personal leave each year, and any unused leave will be added to sick leave days at the end of the school year. Certified employees shall be paid \$25 per day for each day of unused sick leave in excess of 75 days on completion of their annual contract. Such pay shall be limited to a maximum of 16 days. \$1,700 was paid to certified employees for excess accumulated sick leave at year end.

Sick leave is earned at the rate of 12 days per year up to a total accumulation of 75 days for classified employees. Unused sick leave is not paid out for classified employees until retirement. For year ended June 30, 2011 the board approved the payout of unused sick leave for classified employees retiring as of June 30, 2011 at the rate of \$25 per day. \$1,525 was paid to retiring classified employees who left the cooperative during the fiscal year.

Additionally, the Cooperative has established an illness and disability pool for certified employees to which employees may donate sick leave to be used by other eligible employees. The illness and disability pool shall accumulate days to a maximum of 250 days.

**E. Receipts and Expenditures**

**1. Reimbursed Expenses**

The Cooperative records reimbursable expenditures (or expense) in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparisons, the expenditures (or expenses) are properly offset by the reimbursements.

**2. Comparative Prior Year Amounts**

The 201020102010 actual amounts presented in the financial statements have been taken from the audit report for the year ended June 30, 2010 and are presented for comparative purposes only. Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The budget for the Cooperative is submitted to and becomes part of the budget for participating school districts in the Cooperative. All statutory requirements for publication, public hearings and adoption of the final budget are accomplished for the Cooperative as part of the budget process of the school districts. The Cooperative interlocal is exempt from the budget law (K.S.A. 79-2935). However, the Cooperative does prepare an internal budget which is presented within these financial statements.

## Marion County Special Education Cooperative

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - continued

### A. Budgetary Information - continued

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the Cooperative for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end. An internal budget is not required for the following special revenue funds:

Title VI-B Early Childhood pass through  
Infant Toddler Grant, Part C  
Special Education ARRA

Title VI-B pass through  
Targeted Improvement Plan

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

### B. Compliance with Laws and Regulations

References made herein to statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by legal representative of the Cooperative. The following fund had a deficit unencumbered cash balance at June 30, 2011: Infant Toddler Grant, Part C (\$772). This deficit is due to the cash basis presentation which records the last state or federal aid received in July of 2011 as July receipts contrary to statute and contrary to the Cooperative's spending guidelines.

Per K.S.A. 75-3317 through 75-3322 the Cooperative is required to make purchases of products and services offered by the Kansas Industries for the blind and severely disabled. The Cooperative did not make any purchases in the year ended June 30, 2011.

Per K.S.A. 9-1402 and 9-1405, deposits with statutorily authorized financial institutions must be adequately secured. As of June 30, 2011, the Cooperative did not have sufficient securities pledged to secure deposits.

Per K.S.A. 9-1403, peak periods, if designated, must be used properly. Security required by K.S.A. 9-1402 may be reduced by not more than half for two 60 day periods during a year as evidenced by a written agreement between the custodian of the funds and an officer of the depository bank. For the year ended June 30, 2011, the Cooperative had three "peak period" agreements in effect, one of which was for a 90 day period.

Per K.S.A. 10-815 and 10-816, warrants/checks outstanding for two years or more must be canceled and restored to the fund originally charged. As of June 30, 2011 the Cooperative had checks outstanding that were over two years old.

Management is not aware of any other statutory violations for the period covered by this audit.

## III. DETAILED NOTES ON ALL FUNDS

### A. Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the Cooperative. The statute requires banks eligible to hold the Cooperative's funds have a main or branch bank in the county in which the Cooperative is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires banks to pledge securities for deposits in excess of FDIC coverage. The Cooperative has no other policies that would further limit interest rate risk.

## Marion County Special Education Cooperative

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

#### IV. DETAILED NOTES ON ALL FUNDS - continued

##### A. Deposits and Investments - continued

K.S.A. 12-1675 limits the Cooperative's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Cooperative has no investment policy that would further limit its investment choices.

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. State statutes require the Cooperative's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Cooperative had three signed "peak periods" during the year from October 15<sup>th</sup> through December 15<sup>th</sup>, December 16<sup>th</sup> through February 15<sup>th</sup>, and April 24<sup>th</sup> through July 24<sup>th</sup>. The 90 day "peak period" is deemed invalid since statute states that there may be only two 60 day periods. Deposits were not legally secured at June 30, 2011.

At June 30, 2011 the Cooperative's carrying amount of deposits including cash on hand was \$863,124 and the bank balance was \$1,266,524. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,500 was covered by federal depository insurance; \$762,214 was collateralized with securities held by the pledging financial institutions' agents in the Cooperative's name. Deposits were under secured by \$253,810.

#### IV. OTHER INFORMATION

##### A. Defined Benefit Pension Plan

*Plan description.* The Cooperative participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, Kansas 66603) or by calling 1-888-257-5737.

*Funding Policy.* K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. Member-employee's contributions are withheld by their employer and paid to KPERS according to the provisions of section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. Kansas currently contributes 9.17% of covered payroll. These contribution requirements are established by KPERS and are periodically revised. Kansas' contributions to KPERS for all Kansas public school employees for the years ending June 30, 2011, 20102010, and 20092009, were \$253,834,044, \$248,468,186, and \$242,277,363, respectively, equal to the required contributions for each year.

##### B. Contingencies

The Cooperative receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass through aid. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements of the Cooperative at June 30, 2011.

**Marion County Special Education Cooperative**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**IV. OTHER INFORMATION - continued**

**C. Risk Management**

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Cooperative carries commercial insurance. Insurance claims for the preceding three years have not exceeded insurance coverage.

**D. Flexible Benefit Plan (I.R.C. Section 125)**

The Board adopted by resolution a salary-reduction flexible benefit plan ("Plan") under Section 125 of the Internal Revenue Code. All employees of the Cooperative are eligible to participate in the Plan beginning the first day of their employment. Each participant may elect to reduce his or her salary by an elected amount per month to purchase benefits offered through the Plan. In addition, the Cooperative contributes \$375 per month to the fringe benefit package for health insurance for full time staff covered by the negotiated agreement, \$381 per month for certified staff not covered by the negotiated agreement, and \$400 per month for the director.

As part of the plan, the Cooperative also provides for retirees to remain a part of the existing healthcare group plan. The plan is contributory, with participant's contributions covering 100% of the cost of the healthcare coverage.

**E. Other Post Employment Benefits**

As provided by K.S.A. 12-5040, the District allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the District is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the District under this program.

**F. Subsequent Events**

The entity evaluated subsequent events through January 26, 2012, the date the financial statement were available to be issued. No subsequent events were identified.

**G. Compliance With K.S.A. 72-6417(d) and K.S.A. 72-6434(d)**

K.S.A. 72-6417(d) and K.S.A. 72-6434(d) require the Cooperative to record any payment of general state aid that is due to be paid during the month of June and is paid to the Cooperative after June 30, as a receipt for the school year ending on June 30. The following shows the revenue as required by these statutes.

**Marion County Special Education Cooperative**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**IV. OTHER INFORMATION - continued**

**G. Compliance With K.S.A. 72-6417(d) and K.S.A. 72-6434(d) – continued**

**GENERAL FUND**

**STATUTORY REVENUE AND EXPENDITURES - STATUTORY AND BUDGET**

For the Year Ended June 30, 2011

(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

	<b>2010</b>	<b>2011</b>	<b>Variance</b>
	<b>Statutory</b>	<b>Statutory</b>	<b>Favorable</b>
	<b>Transactions</b>	<b>Transactions</b>	<b>(Unfavorable)</b>
		<b>Budget</b>	
<b>Cash receipts</b>			
<b>Local sources</b>			
District assessments	\$ 1,072,841	\$ 1,057,114	\$ 1,072,841
Refunds on district assessments	0	(63,202)	0
Other			
Interest	757	423	500
Miscellaneous	38,916	78,111	49,538
<b>State sources</b>			
Special education aid	2,107,508	2,240,540	1,975,523
<b>Federal sources</b>			
ARRA	0	0	670,229
Medicaid	179,982	145,649	141,350
Other aid	0	0	54,407
<b>Total cash receipts</b>	<u>3,400,004</u>	<u>3,458,635</u>	<u>\$ 3,964,388</u>
<b>Expenditures</b>			
<b>Instruction</b>	2,315,878	2,484,911	\$ 3,315,974
<b>Student support services</b>	378,911	361,995	373,900
<b>Instructional support staff</b>	25,490	22,986	47,737
<b>General administration</b>	256,632	254,752	269,550
<b>Operations and maintenance</b>	87,243	45,369	85,250
<b>Student transportation</b>			
services - supervision	21,173	24,886	25,750
<b>Vehicle service and maintenance</b>	2,471	571	1,200
<b>Other student transportation services</b>	1,484	1,929	2,950
<b>Other supplemental services</b>	1,401	350	1,750
<b>Total expenditures</b>	<u>3,090,683</u>	<u>3,197,749</u>	<u>\$ 4,124,061</u>
Receipts over (under) expenditures	309,321	260,886	
Unencumbered cash, July 1	272,691	582,949	
Prior year cancelled encumbrances	937	0	
Unencumbered cash, June 30	<u>\$ 582,949</u>	<u>\$ 843,835</u>	

Marion County Special Education Cooperative

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

IV. OTHER INFORMATION - continued

G. Compliance With K.S.A. 72-6417(d) and K.S.A. 72-6434(d) – continued

TITLE VI-B EARLY CHILDHOOD

STATUTORY REVENUE AND EXPENDITURES - ACTUAL

For the Year Ended June 30, 2011

(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

	<u>2010</u> <u>Statutory</u>	<u>2011</u> <u>Statutory</u>
Cash receipts		
Federal sources		
Grants	\$ 16,998	\$ 16,995
Expenditures		
Instruction		
Salaries		
Certified	16,998	16,995
Receipts over (under) expenditures	0	0
Unencumbered cash, July 1	4,999	4,999
Unencumbered cash, June 30	<u>\$ 4,999</u>	<u>\$ 4,999</u>

Marion County Special Education Cooperative

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

IV. OTHER INFORMATION - continued

G. Compliance With K.S.A. 72-6417(d) and K.S.A. 72-6434(d) – continued

TITLE VI-B PASS THROUGH

STATUTORY REVENUE AND EXPENDITURES - ACTUAL

For the Year Ended June 30, 2011

(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

	2010 <u>Statutory</u>	2011 <u>Statutory</u>
Cash receipts		
Federal sources		
Grants	\$ 487,435	\$ 483,609
Expenditures		
Instruction		
Salaries		
Certified	487,435	483,609
Receipts over (under) expenditures	0	0
Unencumbered cash, July 1	0	0
Unencumbered cash, June 30	<u>\$ 0</u>	<u>\$ 0</u>

Marion County Special Education Cooperative

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

IV. OTHER INFORMATION - continued

G. Compliance With K.S.A. 72-6417(d) and K.S.A. 72-6434(d) – continued

TARGETED IMPROVEMENT

STATUTORY REVENUE AND EXPENDITURES - ACTUAL

For the Year Ended June 30, 2011

(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

	2010 Statutory	2011 Statutory
Cash receipts		
Federal sources		
Grants	\$ 25,387	\$ 26,237
Expenditures		
Instruction		
Salaries		
Certified	9,680	6,969
Instructional support staff		
Purchased professional and technical services	9,585	12,936
Other purchased services	6,122	6,332
Total expenditures	25,387	26,237
Receipts over (under) expenditures	0	0
Unencumbered cash (deficit), July 1	0	0
Unencumbered cash, June 30	\$ 0	\$ 0

## **SUPPLEMENTARY INFORMATION**

**Marion County Special Education Cooperative**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2011

<b>Federal Grant Pass through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Grantor's Number</b>	<b>Revenues</b>	<b>Expenditures</b>
<b><u>U.S. Department of Education</u></b>				
<b><u>Pass Through State Department of Education</u></b>				
Title VI-B	84.027	N/A	\$ 549,919	\$ 483,609
Title VI-B Targeted	84.027A	N/A	31,903	26,237
Education of Handicapped Children	84.173	N/A	20,817	16,995
Special Education Part B	84.391	N/A	163,468	163,468
Special Education Part B Preschool	84.392	N/A	6,157	6,157
IDEA Part C - ARRA	84.393A	N/A	6,380	6,380
Total U.S. Department of Education			<u>\$ 778,644</u>	<u>\$ 702,846</u>

The above schedule was prepared using a basis of accounting which demonstrates compliance with the cash basis and budget laws of the State of Kansas.

## **SPECIAL REPORTS**



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Marion County Special Education Cooperative  
Marion, Kansas

We have audited the financial statements of Marion County Special Education Cooperative as of and for the year ended June 30, 2011, and have issued our report thereon dated January 26, 2012. The Cooperative prepares its financial statements on a basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we did not consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 2011-1 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



We noted certain matters that we reported to the management of Marion County Special Education Cooperative in a separate letter dated January 26, 2012.

The Cooperative's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Cooperative's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Emporia, Kansas

*Agle & Ince, Chartered*

January 26, 2012.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND IN INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Marion County Special Education Cooperative  
Marion, Kansas

**Compliance**

We have audited Marion County Special Education Cooperative's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. Marion County Special Education Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Cooperative's management. Our responsibility is to express an opinion on the Cooperative's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Cooperative's compliance with those requirements.

In our opinion, the Cooperative complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

**Internal Control Over Compliance**

Management of Marion County Special Education Cooperative is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Cooperative's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion of the effectiveness of the Cooperative's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies



significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information use by the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Emporia, Kansas

*Agler & Gaeddert, Chartered*

January 26, 2012.

**Marion County Special Education Cooperative**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2011**

**SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of report issued on financial statements: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency (ies) identified not considered to be material weaknesses: Yes

Noncompliance material to financial statements noted? N/A

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified not considered to be material weaknesses: Yes

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 paragraph 510(a): Yes

Identification of major programs:

<u>Programs</u>	<u>CFDA#</u>	<u>Expenditures</u>
Title VI-B	84.027	\$ 483,609
Title VI-B Targeted	84.027A	26,237
Education of Handicapped Children	84.173	16,995
Special Education Part B	84.391	163,468
Special Education Part B Preschool	84.392	6,157
IDEA Part C - ARRA	84.393A	6,380

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as a low-risk auditee? No

Marion County Special Education Cooperative

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2011

SIGNIFICANT DEFICIENCIES

<u>ITEM</u>	<u>FINDING</u>	<u>QUESTIONED COST</u>
2011-1 INTERNAL CONTROL OVER EXPENDITURES		NO
CRITERIA:	Expenditures of monies from funds should be accompanied with an approved voucher before checks are written.	
CONDITION:	One mileage reimbursement request was not approved by the director before the expense was reimbursed.	
EFFECT:	The director is not approving all expenditures of funds as required by statute.	
CAUSE:	Internal control procedures have not been established to ensure expenditures are approved by the director before checks are written.	
RECOMMENDATION:	Make sure that all expenditures are approved by the director before checks are written.	
RESPONSE:	Procedures have been set up whereby all documentation will be checked by all parties involved in the process of preparing documents for paying expenditures for the Cooperative. The final responsibility will be with the two individuals responsible for actually preparing the checks. During this process the check is actually signed by the electronic signature cards. All documents will have the Director's approval attached before the checks can be produced.	

Marion County Special Education Cooperative

PRIOR YEAR SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2011

SIGNIFICANT DEFICIENCIES

<u>ITEM</u>	<u>FINDING</u>	<u>QUESTIONED COST</u>
2010-1 INTERNAL CONTROL OVER EXPENDITURES		NO
CRITERIA:	Expenditures of monies from funds should be approved by the Board and changes to the original approval should also be approved.	
CONDITION:	During one Board meeting the list of warrants to be approved was run with incorrect dates and one warrant was not approved by the Board, and the mistake was not noticed or corrected. In addition one warrant was approved after the payment was made.	
EFFECT:	The Board is not approving all expenditures of funds as required by statute.	
CAUSE:	Internal control procedures have not been established to ensure that all warrants are accounted for and presented to the Board.	
RECOMMENDATION:	Someone should review each warrant list submitted to the Board and account for all warrants written during the year.	
RESPONSE	The Cooperative plans to remedy this by creating a checklist of reports showing the dates required for each report, and having the board clerk and the business clerk both review each report before being presented to the board of directors.	

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